



Arizona State Retirement System

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WWW.AZASRS.GOV

An ASRS Q&A

Market volatility and the ASRS Defined Contribution System

THIS INFORMATION IS PROVIDED FOR MEMBERS OF THE ORIGINAL ASRS DEFINED CONTRIBUTION SYSTEM (NOT THE DEFINED BENEFIT PLAN IN WHICH THE VAST MAJORITY OF MEMBERS ARE ENROLLED).

Questions?

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The Defined Contribution System (referred to below as the "System") was the original retirement plan when the ASRS was created in 1953. All ASRS members who began participation in the ASRS after July 1, 1971 are in the Defined Benefit Plan, and not the System. Of the more than 525,000 ASRS members, less than 1,800 remain in the System. All other members should refer to a separate Q&A on the Defined Benefit Plan.

Question: What impact has the volatile stock market had on the ASRS and the System fund in recent months?

Answer: The ASRS is invested in nearly all sectors of the market, including the major indexes. When the markets go up, the ASRS funds increase; when the markets go down, so do the ASRS funds. Due to the market declines over the past several months, ASRS funds, including the System fund, have declined in market value.

Q: What does that mean for my System benefit? What portion of it is guaranteed? What is not guaranteed?

A: The System, which current members elected to remain in after having been offered the option of switching to the guaranteed Defined Benefit Plan, is a Defined Contribution Plan, which includes non-guaranteed benefits. In general, the amount contributed by System members and their employers through contributions made while working, and interest earnings of 8 percent, is guaranteed for purposes of distribution upon retirement. The non-guaranteed portion comes from excess investment earnings applied through supplemental credits or the 13th check.

Q: What impact do market fluctuations have on retired System members?

A: If the System fund falls below a 95-percent funded status, the ASRS Board of Trustees is required to reduce benefits to System members to restore the fund. The System valuation for the period ending June 30, 2008 determined a funded status of 102 percent, which is above the 95-percent threshold. That means that for current retired System members, current benefit levels will remain through November 2009. However, depending upon rates of return for the valuation period ending June 30, 2009, benefits may be reduced for periods on or after December 2009.

Q: What impact could that have on the 13th Check?

A: The 13th check represents additional payments from accumulated excess earnings on the System fund. When the funded status of the System exceeds 105 percent, the ASRS Board may, but is not required to, make distributions via the 13th check. When the fund falls below a 95-percent funded status, the Board is required to reduce benefits. That reduction would be first taken from the 13th check.

When the System funded status falls between 95 percent and 105 percent, no additions or decrements are made to the 13th check, which is the case for this fiscal year end of June 30, 2008.

Q: What if I do not receive a 13th check?

A: The benefit portion of your annuity that was derived from supplemental credits would be reduced.

Q: What impact do the market fluctuations have on active System members?

A: There are only 37 active contributing members in the System. Their contribution rate, which is matched by their employer, is set in state statute at 7 percent and does not change. When there are excess earnings in the System fund, those earnings are distributed in the form of supplemental credits. When there are no excess earnings, no additional supplemental credits are added to active member accounts. And, when there are investment losses, supplemental credits may be decremented from an active member's account balance.

For inactive System members who have an account balance with the ASRS but are no longer making contributions because they are no longer employed by a participating employer, their accounts continue to accrue interest at the rate of 8 percent.

Q: Where are the ASRS investments for the System plan? Is it different than the ASRS total fund?

A: The ASRS does keep a separate investment portfolio for the System fund. It generally has a lower risk-profile, because the majority of System members are retired and the plan is closed, meaning no new, contributing members are being admitted.

The Strategic Asset Allocation Policy for the ASRS total fund is as follows:

U.S. Stocks	45%
Fixed Income.....	26%
International Stocks.....	18%
Real Estate.....	6%
Private Equity	5%

The Strategic Asset Allocation Policy for the ASRS System fund is as follows:

U.S. Stocks	45%
Fixed Income.....	31%
International Stocks.....	18%
Real Estate.....	6%

Fund performance for the fiscal year ended June 30, 2008 was -7.6 percent for the ASRS total fund, and -6.7 percent for the ASRS System fund.

Q: Should I be worried about my retirement savings?

A: Obviously, market conditions affect all investors. During these volatile times, the ASRS will continue to closely monitor investments and make adjustments when prudent, but will continue to take a long-term approach to investing.

It is important to note, and to be prepared for, a reduction in System non-guaranteed benefits possibly as early as December 2009, depending upon earnings as of June 30, 2009.